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C O N F I D E N T I A L SECTION 01 OF 03 CAIRO 005545

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USTR FOR SUAMS

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TAGS: PREL PGOV ECON EAID EFIN QVIP EG

SUBJECT: DEPUTY SECRETARY ZOELLICK'S JULY 14 MEETING WITH
EGYPTIAN PRIME MINISTER NAZIF

Classified by Charge Michael Corbin for reasons 1.4 (d) and
(b).

¶1. (U) July 14, 2005; 8:30 a.m.; Cairo, Egypt.

¶2. (U) Participants:

U.S.

The Deputy Secretary
Charge Michael Corbin
NEA PDAS Elizabeth Cheney
Deputy Spokesman Adam Ereli
D Executive Assistant Ross Wilson

Egypt

Prime Minister Ahmed Nazif
Minister of Foreign Trade and Industry Rachid Rachid
Cabinet Secretary General Sami Zaghloul
Spokesman Magdy Rady
Office Director Abu Taleb Mahmoud

Summary

¶3. (C) During his July 14 meeting with Egyptian Prime Minister (PM) Ahmed Nazif, the Deputy Secretary expressed condolences for the death of the Egyptian Chief of Mission in Iraq. He voiced strong support for the GOE's economic reform efforts, pointing out that Egypt needed economic growth to absorb new entrants into the work force. Nazif said growth was increasing, as investor confidence in Egypt had been restored. Responding to Nazif's request for three more Qualifying Industrial Zones (QIZs), the Deputy Secretary noted that Congress was focused on CAFTA. The Deputy Secretary also underscored that the U.S. offer of loan

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guarantees would expire on September 30, so the GOE needed to move quickly to access the guarantees. Nazif stated that the GOE would act quickly. On political reform, the Deputy Secretary pointed out that free and fair elections,

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including parliamentary elections, would send a strong signal about Egypt's seriousness regarding democratic reform. Nazif asked for the Deputy Secretary's support in ensuring that U.S. assistance to Egypt remained unchanged. End summary.

Progress on Economic Reform

¶4. (C) The Deputy Secretary began the meeting by offering condolences on the death of Egypt's Chief of Mission in Iraq. He noted that he had recently spoken with Iraqi PM Jafari, who told him that Iraq was grateful for Egypt's support and would like to see continued cooperation between the two countries. Jafari wanted to visit Egypt, and we hoped this could happen soon.

¶5. (C) The Deputy Secretary congratulated Nazif on the progress of economic reform, noting that the critical mass of reform-minded ministers in Nazif's Cabinet was key to the change Egypt was experiencing. He also noted that Egypt had a large number of college graduates who would be looking for job opportunities in the coming years. Economic growth would be needed to ensure that jobs were created to absorb this new labor. Nazif agreed, and noted that July 14 was the one year anniversary of his administration. He pointed out that in one year, inflation had fallen from 14 to 4.7%, mainly because investor confidence had increased with the Nazif government. Confidence was the key to economic growth. Investors trusted Nazif's government, so hope had been revived. A lot of foreign investment was coming into the stock exchange and into the state-enterprise privatization program, he added. Tourism revenues were up, as were Suez Canal revenues, which had increased 20% over 2004. The economy was still fragile, however, and the average Egyptian had not yet seen the positive effects of reform. Nazif was

confident that would change with time and continued reform efforts.

QIZs and Loan Guarantees

¶16. (C) Nazif also noted that the numbers for the QIZ program were very positive. Approximately 50 companies had already exported \$50-60 million in goods to the U.S. Sixty percent of the companies had not previously exported to the U.S., and 90% of the companies had capital of less than \$10 million. Minister of Foreign Trade and Industry Rachid added that 450 new companies had been approved to participate in the QIZs, so three more QIZs would be needed. This would help create the new jobs needed to absorb the increased workforce discussed earlier. The Deputy Secretary replied that while Nazif's visit to the U.S. had been productive, especially his discussions on the Hill, the Administration was facing a tough battle with Congress over CAFTA. The Senate had passed the agreement, and it would be considered by the House this month, hopefully before the August recess. In the interim, it would be helpful if the GOE could provide information on how three more QIZs would benefit Egypt. One component of that might be how more QIZs could help Egypt prepare for an FTA.

¶17. (C) The Deputy Secretary also raised the issue of U.S. loan guarantees for Egypt, as reflected in Secretary Snow's recent letter to Finance Minister Youssef Butros Ghali. He pointed out that the deadline for accessing the guarantees was September 30, and that it often took several months to draw up the agreements. If Egypt wanted to access the guarantees, the GOE would have to move quickly. Nazif said the GOE did want the guarantees, especially in light of the costly reforms it was undertaking in the financial sector, and would act quickly. He noted that the Minister of Finance was currently in the U.S. Nazif said he would call Butros Ghali to make sure that the loan guarantee issue was on his agenda during the trip.

Political Reform

¶18. (C) Turning to political issues, the Deputy Secretary said that President Mubarak had recently taken an historic step by allowing competitive presidential elections. The upcoming parliamentary elections would also be a measure of Egypt's commitment to reform. Although the U.S. recognized that progress had been made, more reform was needed, and free and fair parliamentary elections would send a good message about Egypt's seriousness in pursuing reform. Nazif responded that in the past the Cabinet had only handled economic issues, but that had changed under the current administration. The PM was also now engaged in political reform. Nazif said the new election law was a good start, and Egypt was trying to meet international standards, but the democratic process needed time to get underway. He was concerned that none of the opposition parties had the capacity to mount a national election campaign, let alone participate effectively in parliament. He pointed out that the leadership of these parties was old and had not prepared a new generation. He also noted that press freedom was increasing, so that was a sign of the GOE's good intentions on democratic reform.

¶19. (C) The Deputy Secretary replied that winning more seats in parliament could actually help opposition parties increase their organization and effectiveness. He noted that the election law was somewhat ambiguous and might limit formation of new opposition parties. Nazif responded that there were already twenty opposition parties, and he hoped opposition forces, rather than forming new parties, would work to better organize the existing ones. He joked that it might be most effective for the NDP to simply split into several parties. He also pointed out that democratic change had to be done "Egypt's own way."

U.S. Assistance

¶10. (C) PM Nazif said that he was interested in how U.S. assistance was spent and had some new ideas on redirecting assistance. The Deputy Secretary said he was willing to continue discussions with Nazif. Egypt's success was important for the region's success. Nazif said he was pleased with the dialogue and would like to see more informal communication channels open. He thanked the Deputy Secretary for the support provided through USAID and asked that the Deputy Secretary work to ensure that assistance to Egypt remained unchanged. Nazif also noted that POTUS had assured him in the U.S. that the assistance package would not change. Continued U.S. assistance was important to ensure the success of the GOE's reform efforts. The Deputy Secretary

replied that PDAS Cheney had discussed assistance to Egypt with the Director of USAID and that efforts were also underway to start up a new enterprise fund, which State would coordinate with other USG agencies. Nazif said the fund was a good idea, one that could start small and grow over time.

¶11. (U) This message has been cleared by D.

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